

# WESTPAC WAILIS

**PNG ECONOMIC UPDATE AND OUTLOOK**

**May 2025**



## Optimistic 2025: PNG mostly resolves forex issues, sees favourable commodity prices

**Economy:** In our February update, we projected the Papua New Guinean economy to grow by 4.7% this year, as robust momentum from last year flowed in 2025 creating a positive outlook for investment supported by a favourable commodity price. Our forecast is unchanged. Since February, the International Monetary Fund (IMF) has also upgraded its PNG growth outlook to 4.6%, based on strong investment activity. The foreign exchange market improved significantly this year led by a Kina depreciation, IMF fiscal support and additional inflows as high commodity prices boosted exporters' returns. This strengthens the outlook for both investment and domestic demand with importers wait time to pay offshore suppliers significantly reduced.

**Commodities:** Cocoa and coffee prices have remained elevated after a strong rally the previous year due supply shortages. We expect that cocoa and coffee prices will remain elevated for some time, giving farmers and exporters an opportunity to benefit from an income boost. All we can see farmers reacting positively to current prices. Gold rose to a record \$3,400/oz post "Liberation Day," regaining its safe-haven status amidst increasing market volatility. Westpac Economics expects gold to hold around current levels with meaningful near-term upside risks. Coconut oil is another opportunity with a strong rally after the El Nino effect hit major markets taking prices to the highest level seen in the last twenty years.

**Kina and Forex:** The Bank of PNG kept the Kina Facility Rate (KFR) unchanged at 4.0% in March despite a split vote with an indication of the potential for future rate hikes. In May, the KFR was left unchanged as well. Unexpectedly in May, the cash reserve requirement was reduced to 11%, increasing liquidity, while the KFR remained at 4.0%. There has also been a significant reduction in foreign exchange order backlogs resulting in much shorter clearing times, in some cases from months to less than a week, with is a significant positive for business sentiment. The IMF program and reforms have led to significant progress in easing forex shortages and gradual Kina depreciation without leading to significant inflationary pressure.

**Investment outlook:** OK Tedi Mining Limited has acquired the Misima Gold and Silver Project for A\$60 million, with potential additional payments up to A\$35 million, expanding its gold and silver reserves. The acquisition, backed by OK Tedi's strong liquidity, provides the company with control over a major gold development in the Solomon Sea, while Kingston Resources will earn royalties on future production. We are also closely monitoring TotalEnergies' Papua LNG project with final investment decision expected later this year. If plan goes as expected, production will begin in late 2027 or early 2028.

**Opportunities:** PNG's near-term outlook is boosted by high coffee and cocoa prices, while a thriving real estate sector remains an ongoing opportunity. Communications represent another significant opportunity with only one-third of the population having access to telecommunications and just a quarter has access to the internet. Expanding digital access could be a powerful driver of long-term economic growth.

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# A promising start amid global uncertainty

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2025 began on a positive note. Following a better-than-expected year in 2024, the latest [CEO100 Survey](#) reported rising business confidence, with local firms anticipating improvements in profits, employment, and investment. This optimism was supported by strong commodity prices—particularly for coffee, cocoa, and vanilla—which boosted incomes for small producers. As noted by Shamal Chand, high commodity prices also helped ease foreign exchange constraints.

However, the global environment has been far from stable. The inauguration of Donald Trump as the 45th U.S. president introduced considerable uncertainty, particularly around trade policy. His administration's announcement of "reciprocal" tariffs on "Liberation Day" triggered global trade disruptions and financial market volatility. A series of erratic policy shifts—including tariff hikes, partial rollbacks, and selective exemptions—further fuelled uncertainty.

Global trade patterns are undergoing a significant shift. The U.S. dollar weakened amid declining confidence in U.S. economic leadership. Westpac's Chief Economist Luci Ellis described the situation as a "TINA McRAE" event—where "There Is No Alternative" to U.S. Treasuries, yet "Markets Can Reallocate Assets Easily." This dynamic, along with speculation over U.S. debt restructuring, a Moody's downgrade, and a deficit-expanding spending bill, places downward pressure on the dollar.

We view the tariff war as an act of self-harm for U.S., potentially pushing it toward recession while limiting the Federal Reserve's ability to respond due to inflationary pressures. While global growth is expected to slow, many countries—especially China—retain room for policy support. China is still on track to meet its 5% growth target through robust stimulus measures.

PNG is not immune to the fallout from "Liberation Day." A 10% tariff was imposed on countries not subject to reciprocal tariffs. However, the impact will be limited as the U.S. accounted for just 1% of PNG's exports in 2023, ranking as its 12th largest export market.

On positive note the tariff war has boosted gold and copper prices well above our earlier expectations, a trend likely to persist well into 2026. With coffee, cocoa, vanilla and coconut oil prices all holding around their recent highs, they continue to boost local incomes and improve liquidity in the foreign exchange market. The foreign exchange market has improved with a significant reduction in wait time for clearing FX orders and with BPNG committed to the kina depreciation, along with commodity prices boosting export returns, we would expect this improvement FX liquidity to continue. It also appears that the Final Investment Decision on Papua LNG is getting closer and could be announced late this year, or early 2026, which will help the kina find base in the second half of this year.

All combined the settings are there for PNG to possibly exceed our expectations for growth of 4.7% this year, a number that is only just shy of China's target growth of 5%.

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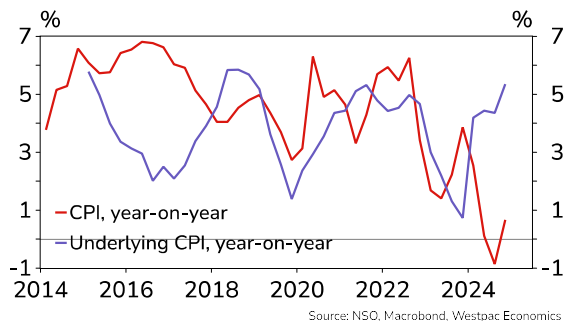
# Inflation pressure risks persist

The most recent inflation data for PNG is only up to December 2024, with the March 2025 figures yet to be released. Our previous update noted an acceleration in both headline and underlying inflation in the final quarter of 2024.

In the absence of timely inflation data, the Bank of Papua New Guinea has adopted a cautious "wait and see" stance, maintaining the Kina Facility Rate at 4.0% a rate that is relatively restrictive. The Bank did debate raising the KFR by 50 basis points, but the decision was evenly split among members of the newly formed Monetary Policy Committee (MPC).

Recent MPC minutes reveal a growing consensus that a rate hike is necessary, suggesting that monetary tightening may be on the horizon once more data becomes available.

## CPI just above zero, core far more robust



In the December quarter, PNG's inflation rate rose to 0.67%, up from -0.86% in the previous quarter. This uptick reflects ongoing economic challenges and the influence of both domestic and international factors. The Bank of Papua New Guinea remains focused on its primary objective of maintaining price stability, with the current Kina Facility Rate held at 4.0% as part of its strategy to manage inflationary pressures.

A key contributor to inflation has been the gradual, managed depreciation of the Kina. As the currency weakens, the cost of imports—particularly essential goods like fuel and food—rises, adding to inflationary pressures. Over the past five years, the Kina has depreciated by approximately 15% against the US dollar, significantly influencing recent inflation trends.

We maintain our view that the Kina's depreciation will bottom out by mid-2025, after which the authorities are expected to allow it to float more freely. This shift aligns with BPNG's long-term goal of transitioning to a flexible exchange rate regime, aimed at enhancing export competitiveness while managing inflation.

Encouragingly, concerns over foreign exchange reserves have eased considerably. As of December 2024, reserves stood at approximately K14.2 billion (USD3.6 billion), significantly reducing wait times for importers accessing foreign currency.

The Bank's monetary policy stance reflects a careful balancing act between controlling inflation and supporting economic growth. The decision to hold the KFR at 4.0%, despite a split vote within the newly formed Monetary Policy Committee (MPC), underscores the complexity of the current environment. Recent MPC minutes suggest a growing consensus in favour of a rate hike, pending further inflation data.

While the March 2025 inflation figures are still pending, the Bank's cautious approach, combined with the Kina's managed depreciation and improved foreign exchange reserves, are helping to shape the inflation outlook. However, risks from imported inflation remain, and careful policy calibration will be essential to maintaining macroeconomic stability.

# Interest Rates and Kina

The Kina Facility Rate held steady at 4% throughout April and left unchanged in May decision as well, reflecting a strong economic outlook and inflation risks, while the Fixed Rate Full Allotment 7-day rate adjusted accordingly.

The Treasury Bill auction as of April 30, 2025, offered K251.410 million across various maturities. The weighted average yields ranged from 4.55% to 8.23%, with the majority allocated to the 364-day bills. Despite receiving total bids of K192.730 million, successful bids amounted to K180.730 million. The auction experienced an overall undersubscription of K58.680 million, mainly in the 91-day and 182-day terms, while the 273-day bills saw oversubscription. This reflects market interest in longer-term securities while highlighting a gap in demand for shorter-term options.

The GIS Auction as of April 29, 2025, offered K10 million in government bonds across three maturity periods. The 2-year bond saw no bids, leading to an undersubscription of K3 million. The 5-year bond received K6 million in bids, fully subscribed, with yields ranging from 9.00% to 9.20%. The 10-year bond received K12 million in bids, but only K4 million was successfully allocated, resulting in an oversubscription of K8 million. The auction demonstrated strong interest in longer-term investments, highlighting a bit of investor confidence in Papua New Guinea's financial markets.

The Central Bank Bill (C-Bill) auction as of 1st May

2025, had no amount on offer but saw K638 million in bids for the 7-day term, all of which were successfully allotted at a 4.00% weighted average yield. Other maturities (14-day, 28-day, 63-day, and 91-day terms) had no bids. The auction resulted in a full allotment of the K638 million received, reflecting strong demand for short-term central bank securities while longer-term maturities remained inactive.

In April, the total market turnover increased by 0.86%, rising from K5.898 billion in March to K5.949 billion.

The Australian dollar (AUD) experienced volatility due to U.S. tariff announcements but recovered early losses, closing higher for the second consecutive month. The lowest AUD/USD exchange rate recorded was 0.5953 on April 9, while the highest was 0.6429 on April 29.

The PGK/AUD exchange rate fluctuated between 0.314 and 0.4131, averaging 0.3918, while the PGK/USD rate saw a gradual managed depreciation from 0.2463 to 0.2452, reflecting ongoing adjustments within the managed exchange rate framework. In latest, the PGK/USD rate dropped to 0.2440 at the end of May.

The Bank of Papua New Guinea conducted four FX auction sessions, offering K369.897 million (US\$90 million) to support trade and import-related orders.

## Currency forecast

PGK vs	Latest	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
USD	0.2440	0.2405	0.2405	0.2405	0.2450	0.2500	0.2550	0.2600	0.2650
AUD	0.3765	0.3879	0.3817	0.3700	0.3712	0.3731	0.3750	0.3768	0.3786
NZD	0.4076	0.4326	0.4272	0.4242	0.4283	0.4303	0.4307	0.4348	0.4366
EUR	0.2143	0.2186	0.2186	0.2161	0.2188	0.2212	0.2237	0.2261	0.2304
GBP	0.1800	0.1879	0.1864	0.1850	0.1870	0.1894	0.1917	0.1940	0.1963
JPY	34.92	34.87	34.39	33.91	34.06	34.25	34.68	35.10	35.51
SGD	0.3136	0.3223	0.3223	0.3199	0.3234	0.3275	0.3341	0.3380	0.3445

Sources: BPNG, Westpac PNG Estimates



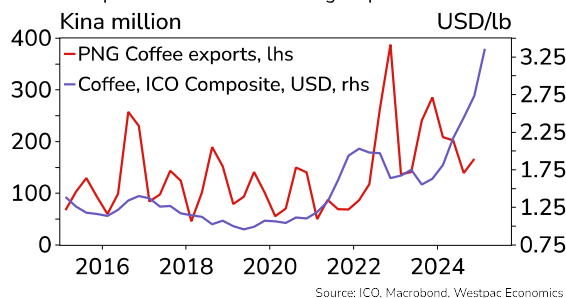
# Commodity rally benefit PNG exporters

Coffee prices surged following disruptive and unfavourable weather conditions in key producing countries. While PNG exporters benefited from the price rally, gains were limited due to a significant drop in production. In 2024, PNG exported 41,600 tonnes of coffee—a 28% decline from the 57,900 tonnes exported in 2023. In response, key advocates have urged Papua New Guineans to invest in coffee plantations, highlighting the sector's potential.

After a broad price surge in late 2024, coffee prices have stabilized but remain historically high. Global prices for both Arabica and Robusta are expected to rise further in 2025, driven by extreme weather and rising shipping costs—creating a major incentive for PNG farmers to boost production.

## Lower coffee production unable to benefit from price rally

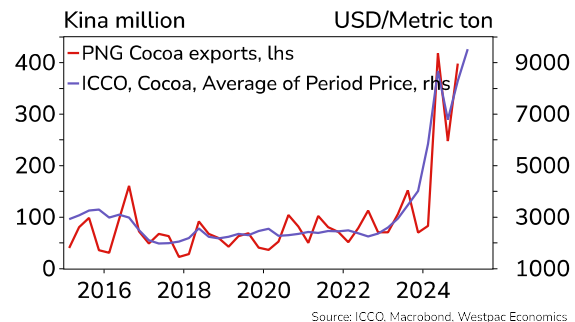
Coffee has potential to benefit from higher price



Cocoa prices have remained volatile since last year, with a sharp surge in the first quarter. While global demand has stayed steady, supply has been constrained. Reports suggest some West African growers are withholding sales, anticipating higher future prices—further fuelling market volatility. Weather conditions in West Africa, the primary cocoa-producing region, are improving with increased rainfall and reduced drought risk. This supports crop growth, though excessive rain could hinder harvesting mid-year.

PNG's cocoa farmers and exporters have benefited significantly from the price rally. In 2024, PNG exported 39,800 tonnes of cocoa—up 3.4% from 38,500 tonnes in 2023.

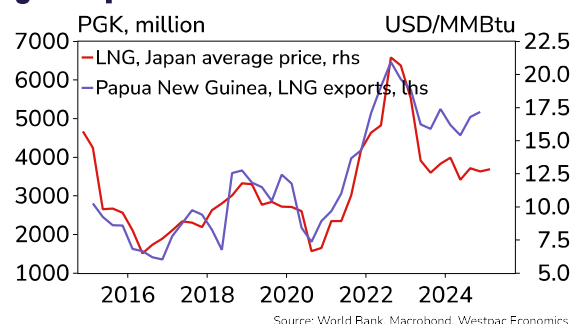
## Cocoa exporters benefit from elevated price



The outlook for Liquefied Natural Gas (LNG) looks promising, as it is seen as a transition fuel as the world decarbonises. In the move to renewable energy and a reduction in the demand for more polluting fossil fuels, natural gas is seen as an intermediary energy source. Global supply of LNG is expected to rise, with a downward outlook on LNG prices in the long term. By 2030, the US is expected to meet 30% of global LNG demand, a significant increase in its market share. The US is already building new liquefaction terminals and expanding the capacities of current facilities to tap into its ample supply of cheap natural gas.

LNG has been one of the key resources boosting growth and economic development in PNG. With an optimistic near-term outlook of global LNG demand, PNG's is set to benefit if TotalEnergies' Papua LNG project makes it to the Final Investment Decision. In 2024, PNG exported K19.6 billion worth of LNG, slightly lower than K20.6 billion exported in 2023 due to lower prices

## PNG's LNG exports tracks closely with global price



# Gold rallies while crude oil falters

PNG's gold export surge in 2024 driven by Porgera mine output and price rally. PNG experienced a strong year for gold exports in 2024, fuelled by increased production at the Porgera mine and a surge in global gold prices. The country exported gold valued at K13.6 billion, marking a 49.7% increase from K9.1 billion in 2023. Export volumes also rose to 47.2 tonnes, up 12.6% from 41.9 tonnes the previous year. However, this recent growth still falls short of the 74.2 tonnes exported in 2019.

In March, PNG exported K922 million worth of gold to Australia for refining—a 22.6% decline from February's K1.19 billion. Despite the monthly drop, this figure represents a 66.3% increase compared to March 2024, underscoring continued momentum from both rising production and a rally in gold prices amid growing global uncertainty.

Gold prices have been particularly volatile since Liberation Day, briefly surging above \$3,400 per ounce before stabilizing. According to [Westpac Economics' May Market Outlook](#), gold prices had risen 44% by April, driven by market reactions to geopolitical instability. The report notes that prices have since stabilized, with expectations that gold will hover around \$3,400/oz, though significant upside risks remain due to current uncertainty surround trade policies.

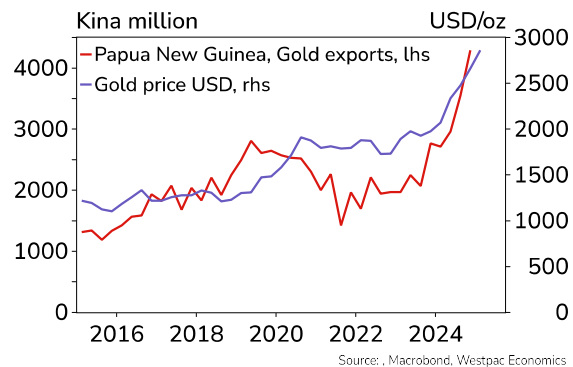
## Crude oil outlook: OPEC+ and supply and demand imbalance

On the crude oil front, OPEC+ is expected to introduce an additional 411,000 barrels per day (kbpd) into the market. [Westpac's May Market Outlook](#) suggests the group may unwind its full 2.2 million barrels per day (mbpd) in production cuts by October, potentially exerting downward pressure on prices.

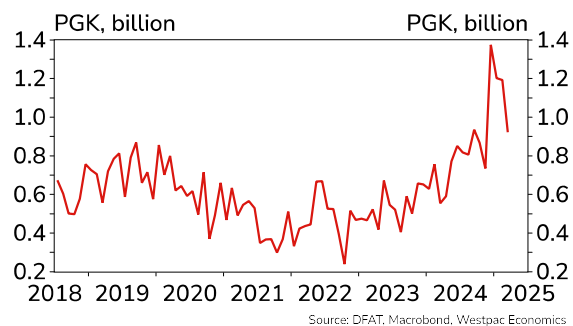
Trade tensions and tariffs are projected to peak by Q3 2025, weakening global demand and contributing to elevated oil inventories. Crude output is forecast to rise by 2.6 mbpd through 2026, while demand is expected to grow by only 2 mbpd—0.5 mbpd less than earlier projections. As a result, U.S. production has been revised downward from a record 13.7 mbpd

in 2025 to 13.44 mbpd by 2026. Despite this, non-OPEC+ countries are anticipated to increase output, with Kazakhstan's ambiguous stance on OPEC+ commitments adding further uncertainty. Westpac now expects oil prices to dip below \$60 per barrel before recovering as we moving through 2026.

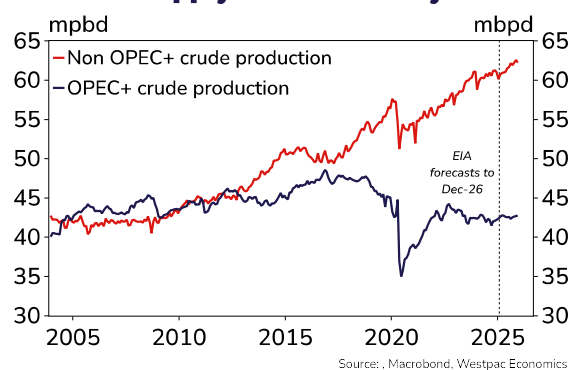
## Gold exports strong



## Gold exports to Australia at K922 million in March



## Crude oil supply outlook is very robust





# Investment outlook and opportunities

## OK Tedi Mining acquisition

Ok Tedi Mining Limited has acquired the Misima Gold and Silver Project in Milne Bay Province from ASX-listed Kingston Resources for A\$60 million, with the potential for additional contingent payments of up to A\$35 million. This strategic acquisition grants Ok Tedi access to an estimated 3.8 million ounces of gold and 22.1 million ounces of silver in reserves. Mining operations on Misima Island were previously halted in 2004.

As a locally owned and operated company, Ok Tedi Mining continues to demonstrate strong financial performance, reporting a record K1.9 billion in turnover and a net profit of K681 million in the first quarter of 2025. The acquisition positions Ok Tedi to control a major gold development and exploration project in the Solomon Sea region.

Restarting operations at the Misima site was previously estimated to require an investment of \$476 million as of 2022. Ok Tedi's robust liquidity from its current operations place it in a strong position to fund the redevelopment. Under the terms of the agreement, Kingston Resources will retain a royalty interest in future production from the site.

## TotalEnergies Papua LNG project status

TotalEnergies' Papua LNG project—Papua New Guinea's second major liquefied natural gas (LNG) venture—aims to commercialize gas from the Elk-Antelope fields with a planned production capacity of 5.6 million tonnes per year. Operated by TotalEnergies in partnership with ExxonMobil and Santos, the project is designed to capitalize on synergies with the existing PNG LNG infrastructure. This includes co-locating new liquefaction trains at the Caution Bay site and delegating downstream operations to ExxonMobil.

The project's Final Investment Decision (FID) has faced several delays. Initially targeted for 2020, then pushed to 2023/2024, the FID is now expected by late 2025 or early 2026. First LNG production is projected for late 2027 or early 2028. These delays are largely attributed to Engineering, Procurement, and above construction (EPC) tenders coming in significantly

construction (EPC) tenders coming in significantly over expectations. Originally estimated at US\$10–12 billion, project costs may now reach up to US\$18 billion, prompting the need for extensive cost optimization to ensure long-term viability.

For Papua New Guinea, the Papua LNG project is a cornerstone of its economic development roadmap since 2014. It is expected to drive substantial economic growth, generate employment, attract foreign investment, and strengthen PNG's position as a leading LNG exporter to nearby Asian markets.

For TotalEnergies, Papua LNG represents a strategic diversification of its global LNG portfolio and a key supply hub in the Asia-Pacific region. The project is also anticipated to bring in significant foreign capital, which could help alleviate PNG's ongoing foreign exchange shortages.

## Opportunities around coconut oil

Papua New Guinea contributes approximately 0.05 million metric tons to the global coconut oil supply. Recently, global benchmark prices—particularly for Filipino coconut oil—have surged past \$2,700 per metric ton due to a combination of supply constraints and rising demand. Prices have nearly doubled compared to the previous year.

The El Niño weather cycle, which spanned from July 2023 to June 2024, significantly disrupted coconut production and yields across key producing regions, reducing global supply by nearly 10% compared to the previous season. Industry forecasts indicate that coconut production may remain subdued in the upcoming season as well.

This price rally presents a timely opportunity for coconut oil exporters in Papua New Guinea. The country, alongside the Philippines, has been gradually shifting coconut oil usage toward mandated blending with diesel to support biofuel initiatives. While weather conditions have recently improved in the Philippines—suggesting a potential recovery in supply over the next few years—Papua New Guinea stands to benefit from elevated prices in the near term.





# **ECONOMIC & FINANCIAL STATISTICS AND OUTLOOK**

## Global and trading partner growth forecast (year average)

Economies	2020	2021	2022	2023	2024	2025	2026
World Economy	-2.7	6.6	3.6	3.5	3.3	2.9	3.0
US	-2.2	6.1	2.5	2.9	2.8	0.9	0.9
Eurozone	-6.0	6.3	3.5	0.4	0.9	0.9	1.3
Australia	-2.1	5.5	3.9	2.1	1.3	2.0	2.2
New Zealand	-1.3	5.7	2.9	1.8	-0.5	1.0	3.2
Japan	-4.2	2.7	0.9	1.5	0.1	1.0	0.8
China	2.3	8.4	3.1	5.4	5.0	5.0	4.6
India	-5.8	9.7	7.6	9.2	6.5	6.2	6.2

Source: Westpac Economics May Market Outlook

## Interest rate forecast

Economies	Latest	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>Australia</b>									
Cash	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35	3.35
10 Year Bond	4.29	4.35	4.40	4.45	4.50	4.55	4.60	4.70	4.80
<b>United States</b>									
Fed Funds	4.375	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875
10 Year Bond	4.37	4.30	4.35	4.40	4.45	4.50	4.60	4.70	4.80
<b>New Zealand</b>									
Cash	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.25	3.50
10 Year Bond	4.53	4.55	4.60	4.70	4.75	4.80	4.85	4.90	4.95

Source: Westpac Economics May Market Outlook

## Commodity price forecast

End of period	Latest	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
<b>Bulk commodities</b>											
Crude oil (US\$/bbl) Brent	62	55	57	60	60	62	65	67	70	71	72
LNG in Japan US\$mmbtu	12.13	12.2	8.9	9.1	9.5	9.1	9.3	9.6	9.7	10.0	9.9
Gold (US\$/oz)	3,381	3,400	3,400	3,300	3,280	3,250	3,200	3,180	3,150	3,130	3,100
Copper (US\$/t)	9,466	9,450	9,250	9,000	8,900	9,210	9,680	9,990	10,460	10,620	10,780
Iron ore fines TSI @ 62% US\$/t	98	95	88	86	84	83	83	84	85	85	86
Nickel (US\$/t)	15,462	15,000	14,500	14,000	14,250	14,680	15,320	15,740	16,380	16,590	16,800

Source: Westpac Economics May Market Outlook, End of period

Financial markets

Indicators	2022	2023	2024	2025(f)	2026(f)
Broad money supply	14.8	11.5	9.9	7.3	7.5
Monetary base	29.5	-8.7	-2.3	7.8	7.0
Claims on private sector	6.9	19.0	11.5	12.3	13.6
Net claims on government	-5.4	33.1	19.9	0.9	4.4
Net foreign assets	52.4	3.9	-6.0	-4.3	4.2

Source: BPNG forecasts

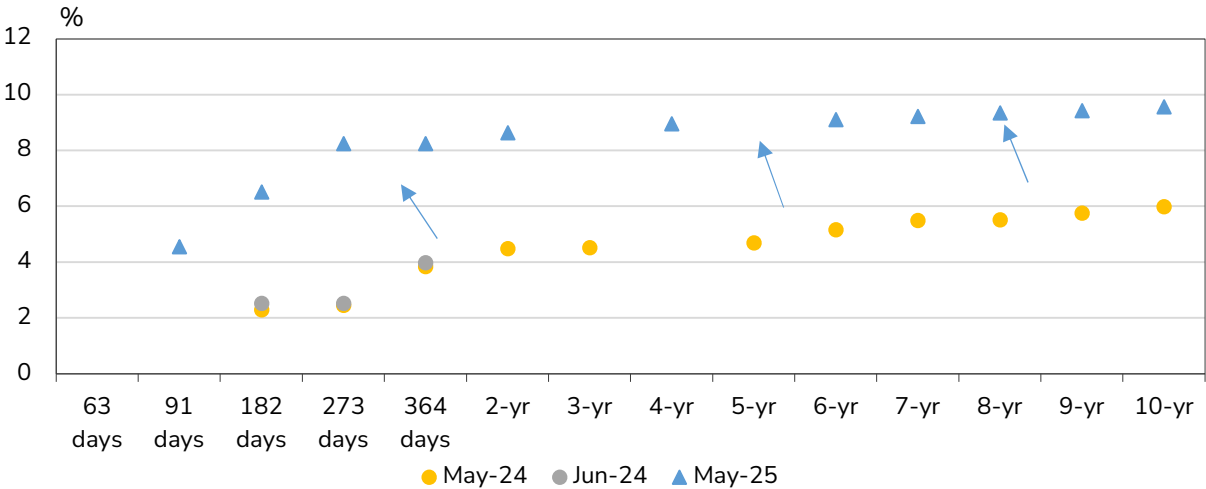
Government bond yields

Auction Number: 20-May-25/GOB/Government Bond; Settlement Date: 23-May-25; Amt Offer: K200mn

Series	Amount on Offer (K'million)	Bids Received (K'million)	Successful Bids (K'million)	Successful Bids Yield	Weighted Average Rate (WAR)	Coupon Rate	Overall Auction Net Subscription
Issue ID 2025 / 4250 (2 Years)	10.000	15.310	15.310	8.60% - 8.65%	8.63%	8.60%	K5.310
Issue ID 2025 / 4251 (4 Years)	10.000	5.000	5.000	8.95% - 8.95%	8.95%	8.90%	-K5.000
Issue ID 2025 / 4252 (5 Years)	10.000	0.000	0.000	0.00% - 0.00%	0.00%	9.00%	-K10.000
Issue ID 2025 / 4253 (6 Years)	10.000	2.260	2.260	9.10% - 9.10%	9.10%	9.10%	-K7.740
Issue ID 2025 / 4254 (7 Years)	30.000	21.000	21.000	9.20% - 9.25%	9.22%	9.20%	-K9.000
Issue ID 2025 / 4255 (8 Years)	30.000	30.000	30.000	9.32% - 9.35%	9.34%	9.30%	K0.000
Issue ID 2025 / 4256 (9 Years)	40.000	14.000	14.000	9.42% - 9.42%	9.42%	9.40%	-K26.000
Issue ID 2025 / 4257 (10 Years)	60.000	109.540	109.540	9.50% - 9.60%	9.56%	9.50%	K49.540
TOTAL	200.000	197.110	197.110				-2.890

Source: BPNG

Yields uplift



Source: BPNG



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